

## NOMURA ASSET MANAGEMENT U.K. LTD.

### Order Execution and Best Execution Policy for Equities – January 2019

In accordance with the EU Markets in Financial Instruments Directive (MiFID II) and the Financial Conduct Authority (FCA) regulations outlined in its Conduct of Business Handbook (COBS), Nomura Asset Management U.K. Limited (NAM UK) takes all sufficient steps to obtain the best possible result when executing transactions for clients' portfolios. This is known as "Best Execution". This policy will explain clearly, in sufficient detail and in a way that can be easily understood by clients, how orders will be executed by the firm.

#### 1. SCOPE

All NAM UK clients are classified as 'Professional Clients' and hence this policy applies to orders where NAM UK acts on its clients' behalf in the following circumstances:

- 1) "execute" - where NAM UK executes a transaction directly with an execution venue, for example, when we buy or sell bonds to a broker, and
- 2) "place or transmit" – where NAM UK passes a transaction to a broker to manage the execution process for example, where the broker acts as agent in the transaction and finds a counterparty to the transaction.

This Policy applies to all financial instruments traded for equity mandates managed by NAM UK.

#### 2. ORDER EXECUTION

##### Execution Venues

An execution venue is an entity that provides a market place, and thereby liquidity, to those wishing to trade in securities. Execution venues include regulated markets, multi-lateral trading facilities (MTFs) and market makers. For the purpose of this policy we consider brokers (who may in turn access these venues or act as SIs

NAM UK maintains an approved broker list which is formally reviewed by the Broker Evaluation Committee (the "Committee") every six months. Changes to the approved broker list must be approved by the Committee and can be made on an ad hoc basis.

NAM UK does not directly use dark pools, direct market access, algorithmic trading techniques or high frequency trading platforms when transacting equity orders for our clients' accounts although these may be used by an executing broker. Given the size and nature of our order flows, NAM UK believes that suitable control and sufficient liquidity is available through our approved broker list.

A copy of the approved broker list is available upon request by existing and prospective clients.

##### Trading Department & Broker Selection

Order execution is managed by NAM UK's Trading desk. The Trading desk is independent of NAM UK's investment teams which allows the trader full discretion over the choice of execution venue and, control over the execution process.

Subject to any specific client instructions (referred to below), the traders use their commercial judgement and available market information to direct orders to the most appropriate approved

broker whilst considering any specific client restrictions, e.g. broker restrictions set out in the client's agreement.

### 3. BEST EXECUTION

NAM UK will take all sufficient steps to achieve the best possible results for our clients. When transmitting orders to brokers for execution, the traders consider the following:

#### 1. Execution Criteria

The traders will apply the following criteria in a manner that takes into account differing characteristics of client orders:

- classification of the client (although all of NAM UK's clients are Professional Clients);
- financial instrument; and
- available brokers or execution venue

#### 2. Execution Factors

The traders consider the relative importance of the execution factors when sending orders to brokers. Execution factors include but are not limited to:

- price;
- cost;
- speed;
- likelihood of execution and settlement;
- size and nature of order; and
- any other factor considered relevant to the management of an, e.g. order, price limit orders set by the portfolio manager.

NAM UK satisfies these requirements by:

- executing client orders as soon as practical, unless postponing execution is likely to produce a better outcome for the client, for example, where the trader believes that market impact and price movement will be limited by managing an order over a period of time.
- ensuring that orders are reviewed and executed by the traders in the order in which they are received; and
- aggregating client orders, where permitted by each client, so that the trader may have an opportunity to return a better execution with a broker due to larger order size.

#### Examples of the Best Execution Factors on Different Asset Classes

##### On exchange

*E.g. Listed Equity, Exchange Traded Derivative instruments (ETDs) and Exchange Traded Funds (ETFs)*

For securities traded on a regulated market (e.g. listed equities and ETDs) the trader directs the transaction to the most appropriate broker taking into account the execution factors. For relatively liquid on exchange transactions, price is likely to be the most significant factor. For large volume orders, programme trades or illiquid stocks however, execution factors other than price (for example likelihood of execution) may be given a higher weighting.

ETFs can be executed using MTFs such as Tradeweb. Multiple quotes can be received simultaneously – price is the most significant best execution factor in this case.

### Broker OTC markets - derivatives

*E.g. Forward FX.*

For forward FX appropriate reference rates are obtained using tools such as Bloomberg and competing spreads from the broker panel where appropriate to model a transaction and establish a price position. Price is likely to be the significant factor. Execution factors other than price (predominantly market impact, liquidity and other implicit costs of transaction) may however be given a higher weighting in some circumstances such as large order size.

### Collective investment schemes

For transactions in the shares or units of collective investment schemes, the sole point of execution will be the scheme manager or their agent and the price will be established according to the scheme's particulars or prospectus.

## 4. CLIENT SPECIFIC INSTRUCTIONS

NAM UK may on occasions, receive instructions from a client to buy or sell specific financial instruments, for example, where the client has added a stock to a prohibited list. These instructions may detail the number of securities to trade, a specific guide price or a broker with whom to place the order.

Where we receive such instructions, NAM UK is not required under the FCA or MiFID II regulations to provide best execution to the client. Nevertheless, NAM UK will take all reasonable steps to obtain the best possible result considering all relevant factors not covered by the specific client instructions.

## 5. ORDER AGGREGATION

If portfolio managers submit multiple orders for the same security, with the same order objectives, then these orders may be aggregated, where permitted by the clients, and placed as a block trade if the trader believes that it is in the best interests of all clients involved.

If an aggregated order is not fully executed it is allocated to each client on a pro-rata basis.

## 6. MONITORING

NAM UK monitors the effectiveness of its execution arrangements and this policy, and, on a regular basis, assesses whether the execution quality of the venues and brokers selected provide the best possible result for the client. Demonstrating best execution does not necessarily involve a transaction-by-transaction analysis, but can involve an assessment of a record of transactions over a period, indicating that overall, the best result has been achieved.

Whilst obtaining and evidencing best execution is the responsibility of the trader, NAM UK's Compliance team will undertake sample monitoring of transactions in line with the guidelines below.

### On exchange

For transactions executed through a regulated market, sample monitoring will be undertaken against a relevant benchmark (e.g. for listed equities, use of VWAP - the average price of weighted trading volumes over a set period or execution benchmarks which show how the execution price compares to our peers trading a similar number of shares in the same stock). Procedures are in place to identify and escalate any exceptions identified which are outside pre-defined tolerances.

### Dealer markets

For transactions executed on an RFQ basis, such as ETFs, an audit trail of competing quotes will be captured within the order management system or by the dealer manually. Transactions will be monitored on a sample basis. Procedures are in place to identify and escalate any exceptions identified which are outside pre-defined tolerances. Where competing quotes are either not available or where they have not been sourced, a comparison will be made between the purchase or sale price as compared to the valuation price immediately succeeding or preceding the transaction to ensure that there was no significant variance.

### Over the counter (OTC)

The method of execution will be dependent on the underlying instruments as defined above under Section 3 – Best Execution – Over the Counter. Either an audit trail of competing quotes will be maintained and reviewed or price validation models will be analysed to verify that brokers have provided the best possible result for the Client.

## **7. BROKER LIST**

NAM UK will list our approved brokers by asset class on our website ([http://www.nomura.com/nam-europe/about\\_nam/legal-disclosures-past-reporting.shtml](http://www.nomura.com/nam-europe/about_nam/legal-disclosures-past-reporting.shtml)). The list may be updated from time-to-time, however, only our latest approved brokers list will be displayed and not historical versions.

## **8. TOP FIVE BROKERS**

In accordance with the MiFID II requirements, NAM UK will post the top five brokers per asset class on annual basis. The details will be first included on our website ([http://www.nomura.com/nam-europe/about\\_nam/legal-disclosures-past-reporting.shtml](http://www.nomura.com/nam-europe/about_nam/legal-disclosures-past-reporting.shtml)) by 30<sup>th</sup> April 2018 to cover the preceding 12 month period. These details will be updated at least annually thereafter.

## **9. POLICY REVIEW**

This Policy is reviewed and approved at least annually, or whenever a material change occurs, by the Broker Evaluation Committee.